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C O N F I D E N T I A L SANTO DOMINGO 001781

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E.O. 12958: DECL: 07/24/2017  
TAGS: ENRG ETRD VE DR  
SUBJECT: DOMINICAN OIL INDEPENDENCE AT RISK THROUGH SALE OF  
REFINERY

Classified By: Roland W. Bullen, Charge d'Affaires, reasons 1.4 (b) and (d)

¶1. (C) Summary: In a meeting with the Charge d'Affaires on July 24, former WHA Assistant Secretary Otto Reich and Mustafa Abu Naba'a of Sargeant Petroleum, Ltd warned that the sale of Shell Oil's 50 percent stake in the Dominican Republic's sole oil refinery (Refidomsa) threatens to create a virtual monopoly over the oil industry if the leading bidder, Trafigura, is awarded the sale. Reich and Abu Naba'a, who represent another competitor, allege that Trafigura has a spotty record on corruption, as well as existing ties to Petrocaribe, which could jeopardize the country's energy independence and potentially strengthen the influence of Venezuela over the Dominican Republic if they are put in charge of its oil imports and distribution. End Summary.

¶2. (C) The sale of 50 percent of the Dominican Republic's sole oil refinery is likely to be announced in the next couple of weeks. Four bids are under consideration by Shell for the purchase of Refidomsa, and according to Reich and Abu Naba'a, the leading bidder is the European-based international oil transport company Trafigura. Reich and Abu Naba'a represent the Puerto Rican BTB Corporation, which is owned primarily by the International Oil Trading Company (IOTC) of Florida. Reich and Naba'a, who own roughly 80 percent of BTB, believe that BTB's bid for Shell's shares is currently running in second place. Reich noted that Trafigura has a somewhat spotty history and has been implicated in a variety of scandals, including the Oil-For-Food scandal in Iraq, a corruption scandal in Jamaica, and a waste dumping fiasco in Cote d'Ivoire in 2006. He added that Trafigura maintains an existing investment and oil supply contractual relationship with a local Dominican group named Coastal Dominicana which currently controls the other major oil importing facility in the Dominican Republic located in San Pedro de Macoris.

¶3. (C) Reich and Naba'a allege that if Trafigura, in a potential alliance with Coastal Dominicana, were to win the bid for Shell's shares of Refidomsa, it could hold a virtual monopoly over the oil and liquid propane gas markets in the Dominican Republic. The hypothesis of an alliance between Trafigura and Coastal Dominicana is based on the existing business relationship, and also on the supposition that Arturo Santana, the prime shareholder of Coastal Dominicana, has been engaging in a media smear campaign of Shell's business practices at Refidomsa. A series of articles have been published in recent weeks in a major daily periodical (Listin Diario) alleging that Shell has engaged in book keeping shenanigans at the expense of the Dominican government and consumers at the pumps. Abu Naba'a admitted that they don't have any proof of Coastal Dominicana's

involvement in the Trafigura bid, but warned that failure to read the signs could be disastrous for the Dominican Republic's energy future.

#### Benefits for Petrocaribe of a Trafigura Refinery

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¶4. (C) According to Reich and Naba'a, Trafigura's somewhat spotty history and "flexibility" in dealing with regulatory and political constraints, provides an ideal opportunity for Petrocaribe to become more active in the Dominican Republic, thereby increasing Venezuela's influence over the Dominican government. This assertion is likely based more on Petrocaribe's ancillary benefits package than on merely shipping arrangements and purchases of Venezuelan crude. The Petrocaribe agreement envisions support for the Dominican Republic and the other signatories of the agreement in the areas of not just shipping costs, but distribution infrastructure, storage facilities and support for state-controlled facilities. Until now, the Dominican Republic has largely resisted some of these ancillary benefits in part because of Shell's strict regulatory and corporate business practices. Once Shell submits its selected bidder to the Dominican government, the government has the option to match any offer provided by the private sector and purchase Shell's shares directly. Either way, with the exit of Shell there could be a breakdown of adequate oversight at the refinery and a loosening of resistance to further contractual relations with Petrocaribe.

#### Political Connections of Key Players

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¶5. (C) The prime shareholder in Costal Dominicana is Arturo Santana. Santana is the brother-in-law of Luis Manuel

Bonetti, who is the current Administrative Secretary to President Fernandez, secretary for business affairs for the ruling Dominican Liberation Party (PLD), and former Secretary of Industry and Commerce in the first Fernandez Administration. Reich and Abu Naba'a allege that Bonetti could be in line for a return as Secretary of Industry and Commerce in an expected cabinet reshuffle next month based on predictions that the current Secretary of Industry and Commerce, Francisco Javier, is predicted to take up the post of Administrative Secretary to the President. As Administrative Secretary, Bonetti currently determines the subsidies for liquid propane gas (LPG), but a move to Industry and Commerce would put him in a tremendously powerful position vis-a-vis his brother-in-law Santana. If Bonetti were to return as Secretary of Commerce and Industry he would be responsible for determining the import parity formulas used to determine the government purchase prices for the oil and LPG to be imported by Trafigura and Coastal Dominicana. This could create an extremely lucrative alliance and provide a huge cashflow for the ruling PLD.

¶6. (C) Comment: Reich and Naba'a's allegations raise serious concerns about the oil independence of the Dominican Republic, the threat of rising Venezuelan influence in the country, and the prospect for corruption in a sector already fraught with problems. Naba'a informed econoff that his group is trying to secure the support of key Dominican Senators to raise these concerns in public in the Senate and that they are also trying to find allies within the PLD to carry their message. While there is definitely logic behind the allegations, Reich and Naba'a stand to earn a tremendous amount of money if they are successfully able to thwart Trafigura's bid for Shell's shares. Given this potential conflict of interest, and the fact that Shell's internal review process has not yet been completed, it would be premature for the Embassy to raise any of these concerns with the Dominican government. End Comment.

BULLEN